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DC Seminar

Decoding DC Pensions

8th November 2018

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Contents

Welcome to our first ever Defined Contribution Seminar titled 'Decoding DC Pensions', an opportunity for you to hear from a range of speakers on the latest developments in the DC world, share industry thought leadership and connect with other like minded professionals.

DC has recently experienced a lot of change including auto-enrolment, pension freedoms, and regulatory reviews.

Whilst these have been positive and indeed welcomed, they bring many challenges – the importance of delivering the right type of administration, the impact of the increase in contribution rates, the difficulty in getting members to engage, defining what the right default fund looks like, and also what the role is for Master Trusts in the new world of DC. Much for us to think about…

That said, these challenges can also potentially lead to better opportunities for the industry going forward. Our seminar therefore aims to provide you with the latest thinking on investment strategies, regulation, communication and member engagement.

We hope you find it informative and that it helps you to deliver better solutions for your schemes and their members.

Agenda

8.30	**Breakfast & Networking**
9.00	**Welcome** Sean Thompson, Managing Director, CAMRADATA
9.10	**Engagement: Building the business case** Annette Frem, Employee Experience Director, Future Kings
9.40	**Post Retirement Solutions** Emma Douglas, Head of DC, Legal and General Investment Management
10.10	**Master Trusts: The New World** Paul Budgen, Director of Business Development, Smart Pension
10.40	**Default Funds Survey – Growth vs. Consolidation** Interview with Nick Fitzpatrick, Group Editor, Funds Europe and Christos Bakas, DC Investment Consultant, Punter Southall Aspire
11.10	**Coffee & Networking**
11.30	**DC Policy & Research** Interview with Alan Chalmers, Publisher, Funds Europe and James Walsh, Policy Lead: Engagement and EU, PLSA
12.00	**A Guide for considering Diversified Liquid Alternatives in DC default design** Matthew Roberts, Partner, Fulcrum Alternative Strategies, Fulcrum
12:30	**New Rules of Engagement** Alan Emberson, Director of Workplace Solutions, Punter Southall Aspire
13.00	**Lunch & Networking**
14.00	**Next Gen Now - Promoting the Next Generation** David Whitehair, DC Business Development, Franklin Templeton Investments and Rebecca Peche, Business Development Director, Smart Pension
14.30	**The Role of the Fiduciary in the DC Landscape** Tony Filbin, Chairman, Capital Cranfield
15.00	**DC Scheme Reviews and Member Outcomes** Gavin Zaprzala-Banks, Principal, Punter Southall Aspire
15.30	**Close**

Speaker

Bios

Sean Thompson

Managing Director

With over 30 years' experience in London's financial services, including investment consultancy, asset management and insurance, Sean brings wide industry knowledge to CAMRADATA.

He was previously Managing Director at Meridian Performance Services and has also worked for companies such as AllianceBernstein and City Capital Counselling UK.

Tony Filbin

Chairman

Tony, a well-known figure in the DC arena, has served as Capital Cranfield's Chairman since 2016. In addition to chairing the Board, he also chairs the firm's Governance Committee and leads their regular DC Forums at which their Professional Trustees gather to discuss current DC topics.

Before joining Capital Cranfield Tony spent his career with Legal & General where he was Managing Director for Workplace Pensions. In this role he was credited with setting up the first Independent Governance Committee as well as L&G's successful Master Trust.

Away from Capital Cranfield his professional activities include serving on the PLSA's Master Trust committee and chairing trustee boards of both Defined Benefit and Master Trust arrangements.

Speaker Bios

Matthew Roberts

Partner, Fulcrum Alternative Strategies

Matthew is Head of Fulcrum Alternative Strategies (FAS) having joined Fulcrum in 2018. FAS invests across Real Assets, Alternative Credit and Diversifiers and the team launched their first pooled fund (Diversified Liquid Alternatives) in May 2018 specifically targeted at providing an alternative investment solution for DC pension schemes.

Before joining Fulcrum, Matthew had been a Portfolio Manager for the Towers Watson Partners Fund since 2014 and before that a manager researcher in fixed income, hedge funds and other alternatives since 2005.

Matthew holds a BSc in Economics and Finance (2005) from the University of Bristol. He has been a CFA charterholder since 2009.

Alan Chalmers

Publisher

Alan is a qualified chartered accountant, involved in publishing for 20 years. He co-founded Funds Europe in 2002 while he was managing director of Union Press Limited from 2001 until 2007. He was managing director of Harper Trade Journals Limited for five years from 1996.

Previously he was commercial adviser to Lipper Analytical Europe, publisher of The European Fund Directory, and a director of Professional and Business Information Plc, publisher of the UK Fund Industry Directory.

Bios

Nick Fitzpatrick

Group Editor

Nick became editor of Funds Europe in May 2007, having previously been deputy editor on another financial title. He has spent seven years in financial journalism – most of that at FTBusiness – and three years in general news.

He also worked as a researcher on the book 'Great Parliamentary Scandals' by Matthew Parris. He has a degree in Spanish and spent one year studying at the University of Havana.

Annette Frem

Employee Experience Director

Annette Frem is an Employee Experience Director, working with clients to build sustainable culture change and engage employees and leaders to deliver improved business performance. With over 20 years' experience both in-house and agency side, Annette specialises in employer branding, EVP development, strategy and values roll out, culture change, employee engagement and internal communication.

She has worked across multiple industries and in various senior HR positions and is a certified MBTI, Profiler (360 tool), Lumina Spark and Lumina Emotion practitioner.

Annette has contributed to a number of CIPD publications and has been invited to speak about employer branding, internal branding and employee engagement at conferences held by CIPD, Melcrum, Osney Media Group and Teneo across the UK and Europe.

Speaker

Bios

Emma Douglas

Head of DC

Emma is responsible for developing LGIM's DC business and investment strategy. Emma joined LGIM in 2014 from Mercer where she was a partner and Head of Mercer Workplace Savings.

Prior to that, she was Head of DC Sales at BlackRock and Head of DC Pensions at Threadneedle Investments, and has more than 20 years of experience in the investment management industry.

Emma graduated from Trinity College, Oxford, and holds an MBA from Manchester Business School via a Women in Management Scholarship from the Guardian. Emma is a member of the PLSA DC Council.

David Whitehair

Director, DC Business Development, Franklin Templeton Investments

David is a Director in the UK institutional team, responsible for establishing and building relationships with UK DC pension schemes, DC investment consultants and DC investment platforms. Mr. Whitehair joined Franklin Templeton in July 2017 having spent more than 10 years at Fidelity International, where he was a Senior Business Development Manager.

Mr. Whitehair joined Fidelity's institutional sales & marketing graduate programme in 2006 before joining the DC sales team in 2009. In his role, he was responsible for business development for Fidelity's DC Investment Only platform business. Mr. Whitehair holds a B.A. degree in Geography from University College London, United Kingdom.

NEXT GEN

Rebecca Peche

Business Development Director

Rebecca joined Smart Pension to focus on the growth of the UK master trust and Smart's strategic partnerships. Rebecca is passionate about delivering people-centric solutions to set "Generation DC" on a better path to retirement.

Prior to joining Smart, Rebecca spent over 8 years in the Asset Management industry. Most recently, she spent 3 years in New York partnering with large US employers in relation their Defined Contribution pension offering across a number of areas ranging from investment solutions, to plan design and employee communications and education.

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

James Walsh

Policy Lead: Engagement and EU

James is Policy Lead: Engagement and EU at the Pensions and Lifetime Savings Association. He leads the Association's policy work on helping people to engage with their retirement saving, including projects such as the pensions dashboard and simpler annual statement.

James also leads on EU issues, including the UK's exit from the EU and preparation for the new EU workplace pensions Directive. Prior to joining what was then the NAPF in 2009, James was Public Policy Manager for ASDA Stores Ltd and Head of Public Affairs at the Institute of Directors.

Earlier in his career he held a series of positions in the Conservative Research Department, serving as Head of Economic Section and then as Deputy Director. He has worked with political leaders in Namibia, Sri Lanka and Belarus.

Speaker

Bios

Alan Emberson

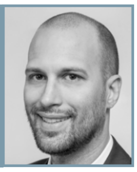
Director of Workplace Solutions

Since joining PS Aspire as Director of Workplace Solutions in 2016, Alan's focus has been on two key areas of development and expansion, the Aspire Savings Trust (a Master Trust) and assisting Trustee boards in finding more efficient ways to govern legacy AVC arrangements.

Alan has also taken a keen interest in helping to further develop the "Aspire2Retire" pre and at retirement support services, which provide scheme members easier access to impartial guidance and advice, to support their decision making around pension flexibility and choice.

During a career spanning over 30 years in financial services Alan has held a number of senior business development roles, both within the traditional provider market and larger consulting community.

The major part of Alan's career has centred on assisting companies in selecting the right DC solution and delivering on large scale communication assignments, aimed at supporting employees' better understanding and ability to plan around their future financial needs.



Christos Bakas

DC Investment Consultant

Christos is a DC Investment Consultant at Punter Southall Aspire where he is responsible for consultancy advice and guidance to clients and trustees on investment issues, governance and strategy.

He also works closely with the team at CAMRADATA, producing bespoke investment research to help clients better understand investment data, market trends and the performance of their schemes.

Christos graduated from EDHEC Business School with a MSc in Finance degree.

Bios

Gavin Zaprzala-Banks

Principal

Gavin has worked in financial services for twenty years, and first joined the Punter Southall Group in 2003.

As Principal in the Guildford team, he is responsible for a portfolio of clients and works with a broad range of employers covering areas such as scheme design and implementation, governance and communication options. Gavin is closely involved with the ongoing development of PS Aspire's governance proposition and member communication programme.

In addition to a degree in English Literature and History, Gavin has a number of financial qualifications including the Financial Planning Certificate, pension specialist paper CF9 and the PMI's Certificate in DC Governance.

Paul Budgen

Director of Business Development

I lead high performing sales, client management and marketing teams in the manufacture and distribution of complex financial solutions to both intermediates and direct to corporate clients.

I have over 25 years of experience gained with leading providers of Workplace Pension Schemes. I understand the challenges faced by employers, trustees, intermediaries and scheme members in a changing savings market.

I regularly contribute to debates, blog and present on how to meet those challenges and deliver great member outcomes in retirement.

A member of the Chartered Insurance Institute.

By 2020, half the world's working population will be millenial or younger.

To meet the needs of those people, we need to provide a platform for diverse thought, and encourage inclusive debate.

If you'd like to help provide that platform, join NextGen...Now!

www.nextgennow.co.uk

Preparation, preparation, preparation

No matter who you are, there are certain letters that we all dread receiving (yes, some people still use the post).

- A brown envelope from HMRC (sigh).
- An A4 envelope containing examination results (shudder).
- Almost anything from your GP (gasp).

We can now add an 'Automatic Enrolment Notice of Inspection' from the Pensions Regulator to that list…

Punter Southall Aspire

PANIC STATIONS!

A number of our clients have been the unlucky recipient of one such letter during recent months. These have often been followed a few days later by an unarranged visit!

For the past few years we've been helping hundreds of employers comply with their auto-enrolment duties. The underlying message from those employers has always been,

'We want to get this right. We don't want our name splashed across the media for screwing up our employees' pensions'.

I'm sure that's a view that you can relate to and understandably our clients have more than a little bit unnerved by the process.

Thankfully, each client has been incredibly diligent and was able to produce a full data trail for every auto-enrolment action that they have carried out in the past few years.

So, if you have re-enrolment approaching and another declaration to make, ask yourself a few simple questions…

1. Are your processes robust and accurate with a sufficient audit trail?
2. Have you kept up with the changing rules over the past four years?
3. Is it time to carry out a scheme health-check to ensure you aren't compounding errors?

Will you be ready if the Big Bad Wolf knocks on your door?

And a step further is to wonder whether the members of our pension schemes will be ready for whatever they hope their retirement to be.

In the UK we are generally well known for avoiding difficult topics of conversation such as money and sticking to safe subjects like the weather. For many years, revealing that I worked in the pensions industry signalled a quick shift in the conversation.

"Pensions? Not as good as property though is it? Do you need another drink?"

"Pensions. Really? Anyway, have you heard the latest news about…?"

Did I ever pretend that I had a different job? Absolutely! However, during the past few years that has all started to change and now questions are cropping up during out of the office discussions more and more often.

Picture the scene: I'm sat at home with the family one Sunday evening when our phone rings. It's answered with the speed of a cobra by my eight year old daughter and the handset is eventually passed to me after it has been determined that there is a specific purpose to the call. It's one of my uncles, who is with friends and are (remarkably) discussing pensions over their desserts.

"Will you be ready if the Big Bad Wolf knocks on your door?

And a step further is to wonder whether the members of our pension schemes will be ready for whatever they hope their retirement to be"

“Hope you don’t mind,” he begins. “It’ll just be a quick question to settle an argument. Is it possible to take a quarter of a pension fund without transferring it first or touching the rest?”

“You see,” interjects a female voice. “I’ve been looking at Pension Wise and reading my company scheme information and it doesn’t quite all make sense.”

> More than a quarter of people consider opting out of their pension to increase their take home pay. The balance between managing debt, living for today and saving for the future is an incredibly tricky one to get right

What follows is a few minutes of heavily-caveated question and answer while on speakerphone to the assembled dinner party guests. Ultimately, they all receive the responses that they hoped for and are delighted to know that their individual plans are still on track. This was not due to me paying each the necessary platitudes to ensure I could swiftly return to the attentions of my family. In the main, it was a result of the recent flexibilities which have meant that each guest at the dinner party was intending to take a reasonable and now viable approach to their retirement planning.

Now, I know that all of those gathered around that dining table were professionals, with a decent level of financial understanding. But even so, the complexities of our convoluted pension system (and a couple of glasses of Burgundy) had managed to stump them all. They all know where to get information, never before has it been so easy to become a self-educated financial guru. Unfortunately, this ease of access is made possible via an overwhelming flood of conflicting, confusing and often simply incorrect sources.

People who say that pensions are dead are wrong. People who say that pensions are the future, are also wrong. At least, in the manner that we think we know them today.

What we need now is to be able to empower people to become more aware of their options and to allow them to do that in whatever way they find most engaging.

Written by

Gavin Zaprzala-Banks
Principal

More than a quarter of people consider opting out of their pension to increase their take home pay. The balance between managing debt, living for today and saving for the future is an incredibly tricky one to get right. And we’re not helped by the simple fact that money is still considered to be a taboo subject here in the UK, unlike many other countries where discussions about wages and savings are commonplace. Visit Australia and people will openly talk about the value of their Superannuation schemes. In Scandinavian countries, it is the norm for everyone’s annual tax returns to be publically published. Not so here in the UK –unless you are one of the BBC’s leading stars.

For well over a decade I have listened to industry experts talk about the importance of communication and engagement without anything actually ever changing. You only need to look at some of the more forward thinking companies and their output to see that we are finally witnessing the start of that long-awaiting change. Communications agencies aligning with pension consultancies. Realising that content and language doesn’t have to be stuffy, just because it always has been. Building platforms that focus on the end-user from the very beginning.

PS Aspire strongly believes in this change. We’re working hard to widen the focus from a narrow spotlight on pensions to the far more relevant subject of NEXT GENERATION SAVINGS. Whether you need to engage your millennials with your benefits package, support your team members as they approach retirement or simply think it’s time to try something different – we are here to help.

Don’t get me wrong, do I still wish I was an astronaut? Of course! But for now, it is great to be in a place that is helping to make a difference.


Punter Southall
Aspire
Not all DC default funds are created equal.
Find out who's performing well in our latest DC default fund Growth and Consolidation phase surveys, available now in VisionHub, our new content library.
For more info visit www.psaspire.com/visionhub
Section 2
Asset Allocation
VisionHub
One Resource - Many Insights
PS Aspire is a trading name of Punter Southall Defined Contribution Consulting Limited. Punter Southall Defined Contribution Consulting Limited is authorised and regulated by the Financial Conduct Authority (FCA) with FCA reference number 121328.

FutureKings

At the start of my career, I believed people should choose a job based on the perks. My argument was that very little would differ in terms of salary and working hours, so the perks would make all the difference. However, it's worth noting that I was working for a travel agency at the time, so may have been a little biased. That was also 25 years ago, and compensation and benefits weren't as evolved as they are today. Back then, businesses also didn't see it as a vital lever of their people strategy.

> "New generations looked to join businesses with a higher purpose – making a positive difference to the world, through enabling employees to volunteer for social causes or supporting developing countries where the business may have a subsidiary or factory"

How things have changed…

In the 25 years that have passed since my first role, the world of compensation and benefits (C&B, as we call it) has undergone dramatic changes. They've been fuelled by the changing landscape of work, legislation and employers' efforts to be attractive to their current and future employees.

Originally, basic remuneration, working conditions and health insurance were the employer's core offer. This widened into physical wellbeing, such as discounted gym memberships, 'stop smoking' initiatives and 'at your desk' massages.

Employers also embraced a wider cultural trend to become more socially responsible. New generations looked to join businesses with a higher purpose – making a positive difference to the world, through enabling employees to volunteer for social causes or supporting developing countries where the business may have a subsidiary or factory.

This notion of responsibility has now grown further. In today's working world competition for talent is fierce, and more and more businesses are offering wellness support to stand out.

Does your C&B make you an attractive employer?

There's a good reason employers focus on C&B. Research shows that it matters when people evaluate the attractiveness of an employer. According to Glassdoor, almost three in five (57%) employees consider benefits and perks in their top criteria before accepting a job[1].

And it pays to be up front too. A survey by Michael Page revealed that 78% of employees are more likely to apply for a job if the compensation is stated[2].

Other research shows that the majority of job seekers will go to a company website to check out, first, the company culture, then their perks and benefits, followed by its mission and values[3].

Use C&B to strengthen your Employer Value Proposition.

Despite this rising focus on C&B, a common problem for many employers is their existing employees' failure to recognise the value of what they're offered. In fact, 96% underestimate what their employer spends on their benefits[4].

However, this provides a great opportunity to ensure the offer is seen as a key strategic component to any Employee Value Proposition (EVP), which is how you articulate what you offer as an employer – and what you expect in return. EVP is the blueprint for the employee experience.

Building a compelling employee journey.

The employee experience journey begins when a candidate first considers you as an employer. It continues through the recruitment process to their everyday working experience as an employee, ending with the relationship they have with you after leaving.

The journey should be built on key insights of where your business is heading, alongside the skills and mindset you need to attract.

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1 https://www.glassdoor.com/blog/glassdoors-5-job-trends-watch-2016/)
2 https://www.michaelpage.co.uk/advice/management-advice/attraction-and-recruitment/employee-benefits-battleground
3 2016 Global Talent Trends
4 https://www.michaelpage.co.uk/advice/management-advice/attraction-and-recruitment/employee-benefits-battleground

It becomes the answer to what your desired employees look for in a job and what inspires existing employees to stay and develop with you.

With every touch point on the employee journey, there is an opportunity to bring the experience to life – to communicate, reward, recognise and develop the skills, attitude and behaviours you need to meet your business goals.

Not all benefits are equal.

When developing the C&B part of your EVP, it's important to remember that not all benefits are created equal. They need to be right for your audience and true to who you are. According to Michael Page, these are the five most wanted workplace benefits:

1. Flexible working hours
2. Work-from-home opportunities
3. Unlimited paid holiday time
4. Company care or subsidised/free transportation
5. Weekly free lunches.

A recent survey carried out by Punter Southall Aspire showed that 72% of respondents want their employer to proactively educate them about pensions[5]. Further research by Thomsons reveals that 67% of businesses do not offer any form of financial guidance[6], so this is a clear opportunity for forward-thinking employers to differentiate themselves.

This is not a tick box exercise.

The thing to keep in mind is that deciding your C&B offer isn't a 'tick the best practice boxes' exercise. When based on solid insight and an understanding of your audiences, it's an opportunity to build a story and working experience that's unique to your business. One that makes you attractive to talent now and in the future.

Many businesses fail to look at this from a strategic perspective, however. Instead they rush to offer the latest fad, installing a ping pong table, bean bags or mindfulness pods. While that may be the answer for some employers, it's certainly not the answer for everyone.

It's crucial to understand what motivates your employees – and what you can realistically do. The trick is to develop an employee offering that complements who you are, what you do and what you're aiming for.

5 steps to building the business case for engagement.

Engaging employees with an offer that's unique to your business takes careful thought, but there are some simple steps you can follow to get started.

1. Work with your HR colleagues to understand what attraction, development and retention challenges you have as a business.
2. Link it to the overall strategy as a business, where you are heading and the talent you need.
3. Research and segment your current and future talent, understanding their influencers, wants and needs.
4. Identify opportunities for developing a compelling EVP and specific offerings and initiatives for core touch points not limited to your C&Bs.
5. Define relevant KPI's and ROI.

Need help?
Do you want your people strategy to truly support your corporate strategy? Learn to use engagement to drive business performance by getting in touch with me at annette.frem@futurekings.co.uk

> "It's crucial to understand what motivates your employees – and what you can realistically do. The trick is to develop an employee offering that complements who you are, what you do and what you're aiming for"

Written by

Annette Frem
Employee Experience Director

5 Punter Southall Aspire, It's Time to Change (2018)
6 https://www.thomsons.com/press-releases/over-two-thirds-of-uk-employers-offer-employees-no-financial-guidance/

Future**Kings**

Our specialist communications team are experienced professionals with award-winning expertise in building strategic and creative solutions to engage stakeholders with you as a business or as an employer.

They work with people and organisations who don't just want results, but want to reshape their employee experiences.

Who want to create compelling communications.

Who want to use engagement to drive business performance.

Contact us

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Fulcrum's Diversified Liquid Alternatives (DLA) Fund is designed with DC investors in mind, seeking a return of cash + 4% after fees over rolling 5-year periods by investing in under-represented asset classes, namely listed real assets, alternative credit and diversifiers. DLA, offers platform friendly daily liquidity with no performance fees and has carefully constructed to complement core equities and bonds and to provide dynamic access to new ideas.

FULCRUM

Should a DC default portfolio include exposure to alternative investments through DLA?

The case for including DLA in the default design of a DC pension plan rests on whether there is a belief that it can improve member outcomes, after fees. There are several 'influencing factors' that should be considered:

Influencing factors

Plan/Member circumstances: DC plans may differ in their tolerance for risk and member profiles. This may lead to the need for bespoke investment strategies at different stages of the glidepath.
Fulcrum view: Lower risk tolerance usually leads to greater diversification being introduced and at an earlier stage in the glidepath and vice versa.

Fees: Fees impact net outcomes and therefore the cost of accessing alternative asset classes must to be considered. The DC charge cap for default strategies puts a greater emphasis on this.
Fulcrum view: The Founders class for DLA has an Ongoing Charge of 0.85% p.a. with no performance fees, which we feel represents good value given the nature of the underlying exposures and the resources dedicated to the solution. Paying the right level of fees is key to harnessing the improvements in investment efficiency. Asset managers are service providers with a cost base they need to cover, and alternatives are generally more cost intensive and capacity constrained than say passive equities.

Liquidity: DC schemes are generally invested through life insurance platforms, requiring daily liquidity.
Fulcrum view: DLA only invests in liquid alternatives and does not include exposure to direct (illiquid) real estate, infrastructure or private equity. DLA has strict controls on liquidity, monitored by our independent risk team. Exposure to illiquid assets should be considered separately as this has its own benefits and challenges.

Responsible Investing: Members are likely to care about this a great deal. How is it being integrated?
Fulcrum view: DLA integrates Responsible Investing at multiple levels, reflecting our belief that if approached intelligently it can improve member outcomes.

Diversifying properties: Are you convinced by the long-run diversifying merits of the underlying strategies within DLA and Fulcrum's implementation of them?
Fulcrum view: Theory suggests that adding these strategies to an equity and/or bond portfolio should improve risk-adjusted outcomes over the long run. We aim to improve this further through in-depth research and a disciplined investment process.

Your views on these 'influencing factors' are critical in determining the route forward.

> "The role of Alternatives in a portfolio is well understood; with DLA they are now more easily accessible for DC savers, especially as part of a DC default"

> A well designed and efficiently structured liquid alternatives fund can incorporate Responsible Investment, diversify across a wide range of under-represented assets and have an overall cost which helps provide investment solutions within DC charge cap limits

At what point in the glidepath should DLA be included?

This depends on what investment outcome you believe DLA can achieve:

A) If you believe that DLA can improve overall risk-adjusted returns and achieve equity-like returns (net of fees) over the long run, then DLA should be included at the beginning of the glidepath and throughout a saver's DC journey.

B) If you believe that DLA can improve overall risk-adjusted returns but will not achieve equity-like returns (net of fees) over the long run, then there is merit in including DLA in the glidepath, most likely at some later stage rather than at the outset.

C) Of course, if you do not believe that DLA will achieve equity-like returns nor improve the risk-adjusted returns of the overall portfolio (net of fees), then there is no point making an allocation to DLA.

How should DLA be implemented in the glidepath design?

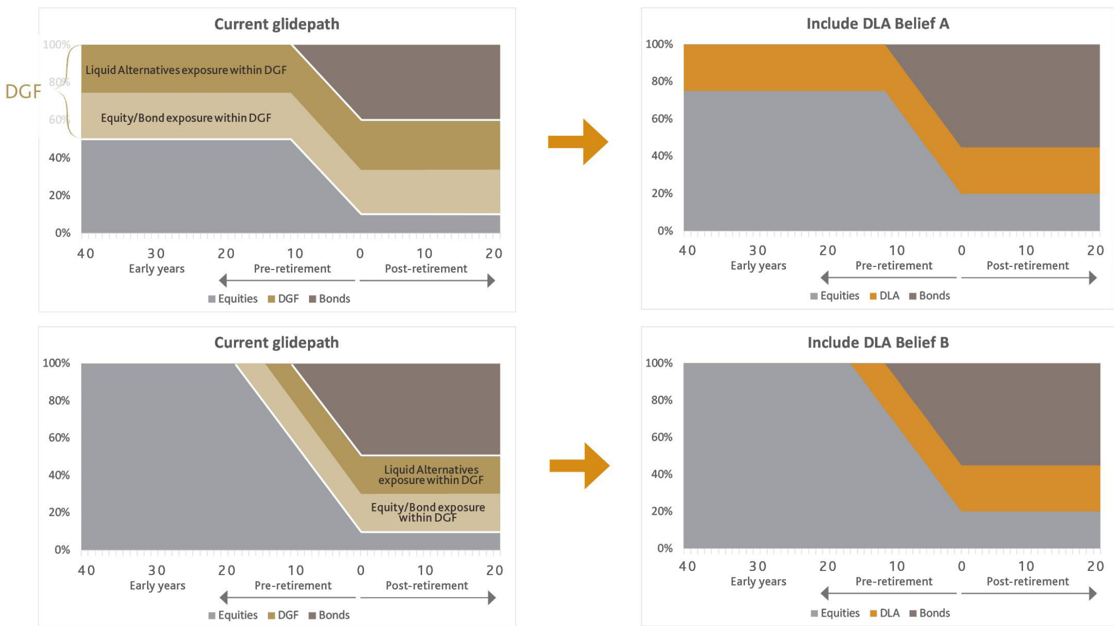
There are many starting points for investors considering DLA; for example, the portfolio might comprise core equities and bonds only or include an allocation to diversified growth and/or absolute return funds. There may be less liquid holdings in the glide path or a combination of specialist mandates or multiple DGFs. Below we explore one illustration of how a DC glidepath could be enhanced by including DLA at different start points depending on whether you believe A) or B) above.

Glidepath currently comprises equities and traditional active DGF, transitioning to bonds over time

A traditional active Diversified Growth Fund generally has structural exposure to equities and bonds in addition to some liquid alternatives. Therefore, there is cost inefficiency in selling equities through the glidepath and buying a DGF (that has equities in it). Because of its careful design, replacing the DGF with DLA and passive equities removes this potential inefficiency.

On the basis that a typical traditional DGF has around 50% combined in equities and bonds, replacing it with DLA and passive equities should either improve expected returns (net of fees) and maintain the level of fees paid OR maintain the level of expected returns (net of fees) and reduce the level of fees paid. The allocation to DLA could be adjusted according to the underlying equity exposure within the current DGF it is replacing. Note, if the DGF is a passive DGF, then including DLA may lead to an increase in overall fees.

Scenario 2



For illustrative purposes only.

However, the range of underlying exposures within DLA are likely to be very different to those included within a passive DGF and the diversification benefits that switching to DLA brings should be greater.

Below, we have chosen to show the impact of replacing a DGF allocation by increasing equities and introducing DLA in keeping with Belief A, at the outset of the glidepath. The analysis can of course be extended to different points on the glidepath as required.

Investment	Typical Ongoing Charge	Current Allocation	Potential Allocation
Passive Equities	10 bps	50%	75%
Active DGF	65 bps	50% (of which half is generally in traditional equities and bonds)	0%
DLA	85 bps (Founders class)	0%	25%
Overall Ongoing Charge		37.5bps	**28.75bps**
Expected Return (net of fees)			Improvement

"A traditional active Diversified Growth Fund generally has structural exposure to equities and bonds in addition to some liquid alternatives; replacing it with DLA and passive equities should improve overall investment efficiency"

Conclusion

We hope this article gives some colour on how to approach more optimal DC portfolio construction along the client's glidepath and helps investors, consultants and advisors understand the potential benefits to investor outcomes of including Fulcrum's Diversified Liquid Alternatives Fund in a DC Glidepath. We would be pleased to engage in further and more bespoke discussions at your convenience.

Written by

Matthew Roberts
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The Long and Winding Road?

Beating Retirement Stereotypes

We all know that retirement is changing, but how? We spoke to some DC members (aged between 55 and 65) about their saving and spending patterns as well as their approach to life after work. So, are new retirees thinking 'here comes the sun' or 'help!'?

Key findings:

- Retirement is increasingly split into early 'active years' and 'old age' rather than one uniform state.
- Individuals' financial circumstances often turned out to be better than they expected
- Taking the 25% tax-free cash sum is often considered apart from retirement planning
- Concerns that individuals are disengaged even at the point of retirement do not appear justified

When I'm 84

Forget "knit(ting) a sweater by the fireside" — the baby boom generation are front-loading their retirement purchases. Travel, home improvements, leisure and following the sun were high up on a roster of 'retire desires'. 80 may become the new 60, as respondents do not generally expect to wind down until the middle of their ninth decade.

However, many contributors were quite realistic about what they could afford, which supports our earlier findings that individuals spend their retirement income responsibly.

Fixing a (financial) hole?

A happy result of our research was that people were often better off than they had anticipated. Our participants reported fretting that they would not have enough to cover their retirement, which was exacerbated by gloomy stories in the media and by the pension industry itself.

Many were pleasantly surprised by their state pension entitlement. Often, households also had a defined benefit pension, but few knew how much it was. Most respondents recorded that their household would need around £1,500 - £2,000 per month once they retire. They were surprised to find that, taking into account all sources of household wealth, the savings they had amassed so far were close to or sufficient to provide this level of income.

Money (That's what I want)

Our respondents were very keen on accessing their 25% tax free lump sum between the ages of 55-59. This is despite the fact that many had no intention of retiring until later — some until their late 60s. This 'freedom' wasn't typically seen as a part of the retirement planning process, which is potentially alarming. It may be worth prompting members about the potential consequences of early access for a day in the life of their later retirement journey.

Let it be

Contrary to popular belief, we found that participants who are close to retirement check their pension pots regularly. Although concerns about financial planning far ahead of retirement are justified, we definitely did not see a lack of engagement as people approach their last day in employment. Respondents would check at least every six months, peaking when work has just stopped and there is no new inflow of cash. Some would even check every day.

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This raises the spectre that members might be 'over- active' in a down market and sell positions which could crystallise their losses. Our research pointed to the need for careful education here.

We can work it out

Ultimately, baby boomers want more flexibility – in their pension pot, how they spend it, and when they spend it. Each retirement journey is different, and needs to be customised for the individual's income and retirement aspirations.

Our challenge is to create a retirement solution which caters to the evolving needs of a new generation (today's 55-65 year olds) in a simple, dynamic and affordable way.

Read more in the longer version of our Four pots for your retirement report' by contacting LGIMevents@LGIM.com for a copy.

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The world is changing

Punter Southall Aspire

> “8 in 10 people who have a DC pension said they had “not given much thought to how much they should be paying in to maintain a reasonable standard of living” when they eventually leave the workforce”

In the world of pensions, surveys have told us over and over again that when it comes to engaging people with their pension saving we have a long way to go if we are truly going to help them achieve much improved future outcomes.

We recently carried out our own survey, “It’s time to change”, which highlighted some of the obstacles that still undermine a person’s ability to commit sufficient money to improving their future prosperity and security:

- 50% are focused on paying off debts, and 30% regularly use an overdraft
- 88% would prefer £400 now, than £800 in future, and 68% would prefer one luxury holiday today, than two in retirement
- 78% budget short-term (typically, month to month) and only 28% usually stick to their budgets
- For 46%, their biggest fear is not having enough money in retirement
- Only 38% will respond to scare tactic communications on the subject - but 76% will respond to feeling excited about something

These statistics remind us that for many, there are significant competing shorter-term financial priorities that give rise to a more general “present-day bias” when it comes to managing finances (and pensions).

In the FCA’s March 2018 Data Bulletin 8 in 10 people who have a DC pension said they had “not given much thought to how much they should be paying in to maintain a reasonable standard of living” when they eventually leave the workforce.

Equally, for those who have managed to accumulate pension savings, the 2017 Financial Lives Survey highlights a lack of understanding and general confusion about their various retirement income options.

So we are currently dealing with obstacles at both ends of the retirement savings spectrum - and it’s abundantly clear to us that the pensions and savings world needs to change.

The good news is that change to both the period leading up to and through retirement is very much under way and put simply, it’s about focusing on giving people what they tell us they actually want.

For example:

- Make me aware
- Remind me
- Keep me up-to-date
- Proactively educate me
- Guide me in a positive direction
- Suggest how much to contribute
- Help me change for the better

Central to this more interactive experience is a platform that delivers tools and personalised relevant financial content, and can adapt its messaging based on the user's behaviour.

A platform like this needs to:

- Make it easy for individuals to aggregate all their finances and savings information in one place, which is the first step in helping them with their budgeting and day–to–day financial decision-making
- Nudge them towards specific content and tools that are closely aligned to areas they have begun to express an interest in
- Include easy-to-use tools & calculators that help them understand their existing provision and plan more effectively for their future
- Provide communications that simplify day to day financial planning & spending, e.g. highlighting where money might be freed up today to put towards their various short- and long-term spending and savings needs
- Include guided journeys that aid transactions and provide easy access to guidance and, where needed, advice if they need additional help to make choices

The general rule being that NONE of the above is directly linked to any specific product e.g. a pension.

Our MyAspire member communication and engagement platforms have been created to do exactly this. And because we can encourage people to take a more active role themselves, MyAspire is the route by which guidance and advice can be delivered more cost-effectively.

So the pensions and savings world is changing:

- It's about the person, not the process
- Finance, not just a pension
- Creating flexibility, but managing associated risks
- Outcome, not Input
- Access to quality guidance or advice

When it comes to finances and lifetime savings, we need to banish the "one trick pony" (i.e. leading on pensions), by engaging people in a more interactive and meaningful dialogue aimed at helping them manage their respective financial resources more efficiently. That's a very positive message which can only lead to improved outcomes.

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